

Financial Statements of

**OREX EXPLORATION INC.**

Years ended June 30, 2010 and 2009

## AUDITORS' REPORT

To the shareholders of  
**OREX EXPLORATION INC.**

We have audited the balance sheets of **OREX EXPLORATION INC.** as at June 30, 2010 and 2009 and the statements of deferred exploration expenditures, contributed surplus, earnings and comprehensive income, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*(s) Raymond Chabot Grant Thornton LLP*<sup>1</sup>  
Chartered Accountants

Rouyn-Noranda (Québec)  
September 15, 2010

<sup>1</sup> Chartered accountant auditor permit no. 12794

**OREX EXPLORATION INC.**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

Balance sheets	1
Statements of deferred exploration expenditures	2
Statements of contributed surplus	3
Statements of earnings and comprehensive income	4
Statements of deficit	5
Statements of cash flows	6
Notes to financial statements	7 - 21

**OREX EXPLORATION INC.**

1

## BALANCE SHEETS

AS AT JUNE 30

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 613,514	\$ 56,926
Term deposits (note 6)	2,514,339	5,071
Marketable securities	4,250	7,250
Sales tax receivable	26,127	33,073
	<u>3,158,230</u>	<u>102,320</u>
FUNDS RESERVED FOR EXPLORATION	-	113,149
MINING PROPERTY - GOLDBORO, GUYSBOUROUGH COUNTY, NOVA-SCOTIA, 100% UNDIVIDED INTEREST (note 14)	1,587,855	1,587,855
DEFERRED EXPLORATION EXPENDITURES - GOLDBORO	8,568,964	8,387,885
	<u>\$ 13,315,049</u>	<u>\$ 10,191,209</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 97,771	\$ 155,912
SHAREHOLDERS' EQUITY		
Capital stock (note 7)	17,942,574	13,847,534
Contributed surplus	1,537,524	1,250,498
Deficit	(6,262,820)	(5,062,735)
	<u>13,217,278</u>	<u>10,035,297</u>
	<u>\$ 13,315,049</u>	<u>\$ 10,191,209</u>

See accompanying notes to financial statements

ON BEHALF OF THE BOARD

(S) *Mark Billings*  
Mark Billings, Director

(S) *Jacques Levesque*  
Jacques Levesque, Director

## STATEMENTS OF DEFERRED EXPLORATION EXPENDITURES

YEARS ENDED JUNE 30

	2010	2009
BALANCE, BEGINNING	\$ 8,387,885	\$ 6,407,129
EXPLORATION COSTS		
Drilling	10,220	1,004,099
Geological consultants	118,872	174,289
Analysis and preparation	49,947	798,753
Equipment rental	2,040	3,615
Increase in deferred exploration expenditures	181,079	1,980,756
BALANCE, ENDING	\$ 8,568,964	\$ 8,387,885

See accompanying notes to financial statements

## STATEMENTS OF CONTRIBUTED SURPLUS

YEARS ENDED JUNE 30

	2010	2009
BALANCE, BEGINNING	\$ 1,250,498	\$ 957,067
Stock-based compensation	271,148	254,599
Amount debited to the capital stock with respect to share issuance expenses following the grant of warrants to intermediaries	97,990	12,100
Amount debited to the capital stock with respect to share issuance expenses following the grant of stock options on units to intermediaries	-	19,432
Amount credited to the capital stock with respect to the exercise of warrants	(5,600)	-
Amount credited to the capital stock with respect to the exercise of warrants by intermediaries	(19,811)	-
Warrants issued with common shares	-	7,300
Amount credited to the capital stock with respect to the exercise of options on units by intermediaries	(56,701)	-
	<u>\$ 1,537,524</u>	<u>\$ 1,250,498</u>

See accompanying notes to financial statements

STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

YEARS ENDED JUNE 30

	2010	2009
<b>ADMINISTRATIVE EXPENSES</b>		
General administrative expenses	\$ 318,857	\$ 234,629
Remuneration of directors	155,000	-
Stock-based compensation for directors and officers	256,203	146,362
Stock-based compensation for consultants	14,945	108,237
Professional fees	289,275	365,839
Information to shareholders	154,977	98,015
Listing and registration fees	20,147	23,197
Non-realized loss on marketable securities	3,000	1,750
Part XII.6 income taxes	3,700	57,316
	<u>1,216,104</u>	<u>1,035,345</u>
Interest income	16,019	12,102
<b>LOSS BEFORE INCOME TAXES</b>	<b>(1,200,085)</b>	<b>(1,023,243)</b>
<b>FUTURE INCOME TAXES (note 8)</b>	<b>-</b>	<b>147,000</b>
<b>NET LOSS AND COMPREHENSIVE INCOME</b>	<b>\$ (1,200,085)</b>	<b>\$ (876,243)</b>
<b>BASIC AND DILUTED NET LOSS PER SHARE (note 10)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>

See accompanying notes to financial statements

## STATEMENTS OF DEFICIT

YEARS ENDED JUNE 30

	2010	2009
BALANCE, BEGINNING	\$ (5,062,735)	\$ (4,186,492)
Net loss	(1,200,085)	(876,243)
BALANCE, ENDING	<u>\$ (6,262,820)</u>	<u>\$ (5,062,735)</u>

See accompanying notes to financial statements

## STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30

	2010	2009
CASH FLOWS RELATED TO:		
OPERATING ACTIVITIES		
Net loss	\$ (1,200,085)	\$ (876,243)
Adjustments for:		
Stock-based compensation	271,148	254,599
Non-realized loss on marketable securities	3,000	1,750
Future income taxes	-	(147,000)
Net change in non-cash working capital items	54,481	139,230
<b>CASH FLOWS RELATED TO OPERATING ACTIVITIES</b>	<b>(871,456)</b>	<b>(627,664)</b>
FINANCING ACTIVITIES		
Advances from a related company controlled by a director	-	(2,094)
Issuance of common shares and warrants	4,314,087	1,296,700
Common share issuance expenses	(253,169)	(148,157)
<b>CASH FLOWS RELATED TO FINANCING ACTIVITIES</b>	<b>4,060,918</b>	<b>1,146,449</b>
INVESTING ACTIVITIES		
Term deposits	(2,509,268)	44
Funds reserved for exploration	113,149	1,424,720
Deferred exploration expenditures	(236,755)	(2,010,221)
<b>CASH FLOWS RELATED TO INVESTING ACTIVITIES</b>	<b>(2,632,874)</b>	<b>(585,457)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>556,588</b>	<b>(66,672)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<b>56,926</b>	<b>123,598</b>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<b>\$ 613,514</b>	<b>\$ 56,926</b>

Additional information on cash flows (note 11)

See accompanying notes to financial statements

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**1. STATUS AND NATURE OF ACTIVITIES**

The Company, incorporated under Part 1A of the Quebec Companies Act, is in the process of exploring mineral properties and has not yet determined whether its property contains ore reserves that are economically recoverable.

The recoverability of amounts shown for the mining property and related deferred exploration expenditures and the capacity of the Company to meet all its commitments are dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Although the Company has taken steps to verify title to mining properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

**2. GOING CONCERN ASSUMPTION**

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and on the basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

Given that the Company has not yet determined whether its mining properties contain mineral deposits that are economically recoverable, the Company did not generate income and cash flows from its operations until now. These conditions raise significant doubt regarding the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon its ability to raise financing to further explore its mining properties. Even if the Company has been successful in the past in doing so, there is no assurance that it will manage to obtain additional financing in the future. Management assesses its need for financing and its strategic alternatives, including potential changes to its exploration programs and its discretionary expenses.

The carrying amounts of assets, liabilities, revenues and expenses presented in the financial statements and the balance sheet classification have not been adjusted as would be required if the going concern assumption was not appropriate.

**3. FUTURE ACCOUNTING STANDARDS**

## CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, Canada's Accounting Standards Board confirmed January 1, 2011 as the changeover date to move financial reporting for Canadian publicly accountable enterprises to the International Financial Reporting Standards ("IFRS"). The Company will adopt the IFRS for the interim financial statement that will end on September 30, 2011.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**4. ACCOUNTING CHANGES**

## FINANCIAL INSTRUMENTS

In June 2009, the Canadian Institute of Chartered Accountants amended Section 3862, "Financial instruments – disclosure". This section has been amended to introduce new financial disclosure requirements, particularly with respect to fair value measurement of financial instruments (three hierarchy levels) and entity exposure to liquidity risk.

The amendments to this section apply to annual statements for years ending after September 2009. The Company adopted the amendment of Section 3862 during the fiscal year and there is no impact on the financial statements regarding the adoption of this standard.

**5. ACCOUNTING POLICIES**

## BASIS OF PRESENTATION

The financial statements are prepared using the historical cost method, except for certain financial instruments that are recognized at fair value. No information on fair value is presented when the carrying amount corresponds to a reasonable approximation of the fair value.

## FINANCIAL ASSETS AND LIABILITIES

On initial recognition, all financial assets and liabilities are measured and recognized at their fair value, except for financial assets and liabilities resulting from certain related party transactions.

Transaction costs from held-for-trading financial assets and liabilities are recognized in earnings and presented under general and administrative charges. Transaction costs from loans and receivables increase the carrying amount of the related financial assets. Transaction costs from other financial liabilities reduce the carrying amount of related financial liabilities.

Subsequently, financial assets and liabilities are measured and recognized as follows.

## HELD-FOR-TRADING FINANCIAL ASSETS

Held-for-trading financial assets are measured at their fair value and changes in fair value are recognized in earnings.

The changes in the fair value of the marketable securities are presented in the account non-realized loss on marketable securities. The changes in the fair value of the other held-for-trading financial assets include interest and are presented under «interest income».

Cash and cash equivalents, term deposits, marketable securities and funds reserved for exploration are classified as held-for-trading financial assets.

Term deposits and funds reserved for exploration are designated as held-for-trading because the Company envisages repurchasing them, entirely or partly, before their maturing date.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**5. ACCOUNTING POLICIES (CONTINUED)**

## OTHER FINANCIAL LIABILITIES

Other financial liabilities are measured at amortized cost using the effective interest method. Interest calculated using the effective interest method is presented in general and administrative expenses.

The accounts payable and accrued liabilities are classified as other financial liabilities.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and investments maturing within less than three months from the date of acquisition.

## FUNDS RESERVED FOR EXPLORATION

Funds reserved for exploration consist of proceeds of flow-through financing not yet disbursed. Under the terms of the financing, the Company is committed to spending the funds on exploration.

## MINING PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

The mining properties are recorded at cost. Exploration costs are deferred. When a decision is made to bring an orebody into production, the costs related to an orebody, recorded in mining properties and deferred exploration expenditures, are transferred to fixed assets; they will then be amortized based on the unit of production of the year and the proven and probable ore reserves. When a project is abandoned, the related costs are charged to earnings.

Mining properties and exploration costs are tested for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. The Company performs a recoverability test when estimate future cash flows are available. If management has not enough information to estimate future cash flows to evaluate the recoverability of capitalized amounts, management will evaluate it by comparing the fair value and the carrying value, without doing a recoverability test. Management will also consider whether results from exploration works justify further investments, the confirmation of the interest of the Company in the mining claims, the ability of the Company to obtain the necessary financing to complete the future development or if the disposal of the properties will be for proceeds in excess of their carrying value.

## INCOME TAXES

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse. The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future tax assets will not be realized.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**5. ACCOUNTING POLICIES (CONTINUED)**

## CAPITAL STOCK

Capital stock issued for non-monetary consideration is recorded at the market value on the date the shares were issued, or on the date the agreement to issue the shares was entered into as determined by the board of directors.

The resource expenditure deductions for income tax purposes related to exploration activities funded by flow-through shares are renounced in favour of investors in accordance with tax legislation. Under the liability method of accounting, according to EIC-146, future income taxes related to the temporary differences are recorded on the date of the renunciation to investors together with a corresponding charge to share issue expenses.

## STOCK-BASED COMPENSATION

The Company uses the fair value method based on the Black & Scholes pricing model to record the compensation cost related to the issue of stock options to its employees, directors, officers and consultants to earnings and comprehensive income, deferred exploration expenses or issuance expenses over the vesting period with a corresponding credit to contributed surplus. When holders exercise their options, any consideration received and any contributed surplus related to these options is credited to capital stock.

## USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the amounts of assets and liabilities. Those estimates also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and charges during the years. Significant estimates include the carrying value of mining properties, deferred exploration expenditures, stock-based compensation and valuation of the warrants. Actual results could differ from those estimates.

## SHARE ISSUE EXPENSES

Share issue expenses are applied against proceeds of the share issue.

## FAIR VALUE OF THE WARRANTS

Proceeds from unit placements are allocated to the shares and warrants issued according to their relative fair value using the residual method to determine the fair value of warrants issued.

## BASIC AND DILUTED NET LOSS PER SHARE

Net loss per share is calculated using the weighted average number of outstanding shares during the year. The diluted net loss per share is equal to the basic net loss per share due to the anti-dilutive effect of stock options and warrants described in note 7.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**6. TERM DEPOSITS**

In 2010, term deposits bear interest at rates of 0.71% and 1.5% (2.1% in 2009) and will mature respectively in January 2011 and January 2012 (in October 2009 for 2009). However, they are redeemable at any time without penalty.

The Company intends to use the term deposits during the next twelve months in its operations.

**7. CAPITAL STOCK**

AUTHORIZED

Unlimited number of common shares, no par value, voting and participating

ISSUED AND PAID

	2010		2009	
	Number of shares	Capital-stock \$	Number of shares	Capital-stock \$
Balance, beginning	120,253,062	13,847,534	99,708,062	12,806,823
Private placements	33,600,000	3,360,000	11,945,000	716,700
In counterpart of share issuance expenses	650,000	65,000	-	-
In counterpart of accounts payable	500,000	50,000	1,300,000	78,000
Flow-through private placement -b)	-	-	7,300,000	540,200
Subscription receivable -c)	-	-	-	32,500
With respect to the exercise of warrants	8,220,876	852,498	-	-
With respect to the exercise of options on units	1,213,846	183,701	-	-
Share issuance expenses	-	(416,159)	-	(326,689)
Balance, ending - a)	164,437,784	17,942,574	120,253,062	13,847,534

(a) Escrowed shares

In 2003, the Canadian regulatory authorities have adopted an uniform escrow regime, which changes the escrow conditions as well as the timing of their release. Amendments to existing escrow agreement were approved by a majority vote of the shareholders of the Company at their annual meeting held on March 29, 2007 and divulgated in the October 24, 2007 Press Release.

	2010	2009
Balance, beginning	-	292,500
Released October 24, 2008	-	(146,250)
Released April 24, 2009	-	(146,250)
Balance, ending	-	-

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**7. CAPITAL STOCK (CONTINUED)**

## ISSUED AND PAID (CONTINUED)

- (b) The proceeds from this issue have been used for the Phase 2 Exploration Program at the Company's wholly owned Goldboro property located in Nova Scotia. During the 2010 financial year, the Company closed flow-through private placements for a total amount of \$0 (\$547,500 in 2009), from which an amount of \$0 (\$7,300 in 2009) representing the fair value of the warrants was credited to the contributed surplus.
- (c) This amount represents the subscription price for units sold to one subscriber in the private placement dated March 10, 2008. The cheque representing the amount of subscription was returned with the mention "no sufficient provision" after the closing date of the placement. In spite of many requests of payment, this subscription amount was still unpaid on June 30, 2008. Efforts were made with a legal advisor in order to recuperate this amount, this amount was recovered on January 21, 2009.

## SHAREHOLDERS RIGHTS PLAN

On December 11, 2008, the shareholders of the Company approved a Shareholders Rights Plan that came into effect on December 11, 2008. On the effective date, one right was issued and attached to each outstanding common share, and one right is also attached to each subsequently issued common share. The rights only become exercisable in limited circumstances, such as acquisitions of 20% of the common shares of the Company, and each right permits the holder to purchase a common share at a substantial discount to market price. The rights plan has a term of three (3) years, subject to reconfirmation at the annual meeting of the shareholders to be held in 2011.

## STOCK OPTION PLAN

Under its stock option plan, the Company may issue a maximum of 14,000,000 (9,900,000 in 2009) common shares to its directors, officers, employees, suppliers and consultants. The exercise price of each option cannot be less than the closing price of the Company's shares on the TSX Venture Exchange on the day preceding the date of the grant and an option's maximum term cannot exceed 5 years. Options may be exercised at any time but, the shares acquired under the plan are subject to a 4 month hold period commencing on the date the options were granted.

The rights attached to the options are vested immediately except for public relations consultants, who will acquire their rights over a 12 month period, at a rate of 25% per quarter.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**7. CAPITAL STOCK (CONTINUED)**

STOCK OPTION PLAN (CONTINUED)

The weighted average fair value of options granted during the year of \$0.085 (\$0.068 in 2009) was estimated using the Black & Scholes stock option evaluation model with the following assumptions:

	2010	2009
Weighted risk free interest rate	2.8%	1.73%
Weighted average expected volatility	79.6%	88.35%
Weighted average estimated duration	5 years	3.68 years
Dividend expected	0%	0%

During the 2010 financial year, stock-based compensation expenses in the amount of \$271,148 (\$254,599 in 2009) were accounted to earnings with a corresponding credit to contributed surplus.

A summary of the status of the Company's stock option plan as of June 30, 2010 and 2009 and changes during the years ending on those dates is presented below:

	2010		2009	
	Numbers of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)
Outstanding, beginning of year	9,600,000	0.1471	6,528,570	0.145
Granted:				
- to directors and officers	3,000,000	0.15	1,750,000	0.148
- to consultants	400,000	0.15	2,200,000	0.1527
Expired:				
- to directors and officers	(550,000)	0.1555	(100,000)	0.10
- to consultants	(4,050,000)	0.1468	(350,000)	0.121
- to intermediaries	-	-	(428,570)	0.175
Outstanding, end fo year	8,400,000	0.1474	9,600,000	0.1471
Exercisable Options, end of year	8,175,000	0.1473	9,375,000	0.1471

During the year, 3,400,000 (3,950,000 in 2009) options were granted by the Company at a weighted average price of \$0.15 (\$0.151 in 2009).

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**7. CAPITAL STOCK (CONTINUED)**

STOCK OPTION PLAN (CONTINUED)

The following table summarizes information about stock options outstanding as at June 30, 2010:

Range of exercise price	Outstanding Options			Exercisable Options		
	Number outstanding	Weighted average remaining life (Years)	Weighted average exercise price	Number Exercisable	Weighted average exercise price	
\$0.10	450,000	3,45	\$0.10	450,000	\$0.10	
\$0.105	350,000	2,62	\$0.105	350,000	\$0.105	
\$0.15	6,000,000	3,72	\$0.15	5,775,000	\$0.15	
\$0.16	1,600,000	3,88	\$0.16	1,600,000	\$0.16	
<b>\$0.10 to \$0.16</b>	<b>8,400,000</b>	<b>3,69</b>	<b>\$0.1474</b>	<b>8,175,000</b>	<b>\$0.1473</b>	

WARRANTS

During the year, the Company issued 36,390,000 (20,999,500 in 2009) share purchase warrants at variable exercise prices and for different periods, as part of private placements. Each warrant entitles the holder to one common share of the Company.

	2010		2009	
	Number	Weighted average exercise price up to	Number	Weighted average exercise price up to
Balance beginning	37,817,444	\$0.2034	21,103,656	\$0.2299
Expired during the year				
- June 19, 2009			(4,285,712)	\$0.40 June 19, 2009
- November 28, 2009	(6,538,461)	\$0.40 November 28, 2009		
- December 21, 2009	(1,538,461)	\$0.40 December 21, 2009		
- December 31, 2009	(3,821,384)	\$0.40 December 31, 2009		
- December 31, 2009	(382,138)	\$0.40 December 31, 2009		
- February 11, 2010	(1,950,000)	\$0.15 February 11, 2010		
- March 10, 2010	(2,587,500)	\$0.15 March 10, 2010		
Issued during the year				
- December 30, 2008			7,415,000	\$0.10 Dec. 30, 2009 \$0.15 Dec 30, 2010
- February 25, 2009			13,584,500	\$0.10 February 25, 2012
- October 23, 2009	22,180,000	\$0.125 October 23, 2012		
- November 11, 2009	13,650,000	\$0.125 November 11, 2012		
- December 8, 2009	560,000	\$0.10 December 30, 2009		
Exercised during the year	(8,220,876)	\$0.1006		
Balance ending	49,168,624	\$0.1257	37,817,444	\$0.2034

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**7. CAPITAL STOCK (CONTINUED)**

WARRANTS (CONTINUED)

During the year, 1,080,000 (489,500 in 2009) warrants were issued to the brokers. The fair value of the warrants issued to the brokers was accounted for the amount of \$97,990 (\$12,100 in 2009). The weighted average fair value of \$0.091 (\$0.025 in 2009) of these warrants was estimated using the Black & Scholes options pricing model using the following weighted assumptions:

	2010	2009
Weighted risk free interest rate	2.08%	2.50%
Weighted average expected volatility	100.30%	100.00%
Weighted average estimated duration	3 years	3 years
Dividend expected	0%	0%

OPTIONS ON UNITS TO INTERMEDIARIES

In the private placement closed on December 30, 2008, the Company issued, as remuneration to intermediaries, 560,000 options to acquire units at a price of \$0.075 each until December 30, 2010. A unit consists of one common share and one warrant giving the right to buy a common share at a price of \$0.10 before December 30, 2009 and at a price of \$0.15 per share up to December 30, 2010. Those options were exercised on December 8, 2009; the warrants included in the units were also exercised on December 8, 2009.

A summary of the status as at June 30, 2010 and 2009 and changes during the years ending on those dates is presented below:

	Units to Intermediaries	Attributed value \$	Weighted average exercise price \$
Outstanding and exercisable on June 30, 2008	807,692	49,715	0.13
Granted on December 30, 2008	560,000	19,432	0.075
Outstanding and exercisable on June 30, 2009	1,367,692	69,147	0.108
Expired	(153,846)		0.13
Exercised	(1,213,846)		0.105
Outstanding and exercisable on June 30, 2010	-		-

The fair value of each option on units granted during the year of \$0 (\$0.04 in 2009) was estimated using the Black & Scholes pricing model using the following weighted assumptions:

	2010	2009
Weighted risk free interest rate	-%	1.32%
Weighted average expected volatility	-%	99%
Weighted average estimated duration	-	2 years
Dividend expected	-%	0%

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**8. INCOME TAXES**

Income tax expense (recovery) differs from the amounts computed by applying the combined federal and provincial income tax rate of 30.4% (2009, 30.9%) as a result of the following:

	2010	2009
Loss before taxes	\$ (1,200,085)	\$ (1,023,243)
Computed "expected" tax recovery	(364,826)	(316,182)
Share issue expenses	(75,747)	(28,314)
Non deductible expenses	4,387	1,545
Stock-based compensation	82,429	73,314
Income tax rates variation	45,553	334,078
Valuation allowance less (plus) value	308,204	(211,441)
Total income tax expenses (Recovery)	\$ -	\$ (147,000)

The tax effects of temporary differences that give rise to significant portions of future tax assets are as follows:

	2010	2009
<b>Future income tax assets:</b>		
Mining property and deferred exploration expenditures	\$ 1,005,502	\$ 1,035,725
Deductible share issue expenses	100,505	71,366
Loss carried forward	1,026,165	770,215
Total gross future income tax assets	2,132,172	1,877,306
Less valuation allowance	(2,132,172)	(1,877,306)
Net future income tax assets	\$ -	\$ -

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**8. INCOME TAXES (CONTINUED)**

As at June 30, 2010, the Company has the following tax losses available to reduce future years' income for tax purposes, the tax effect of which has not been recorded in the financial statements.

Losses carried forward for tax purposes will expire as follows:

2014	150,519
2015	207,685
2026	422,355
2027	546,720
2028	557,287
2029	853,525
2030	1,052,351
	\$ 3,790,442

**9. RELATED PARTY TRANSACTIONS**

During the financial year, the Company paid vehicle rental expenses of \$12,000 (\$12,000 in 2009), professional fees of \$120,000 (\$120,000 in 2009), shares issuing fees of \$8,000 (\$9,480 in 2009), rental of equipment of \$48,000 (\$48,000 in 2009) and services and rental of office and equipment of \$96,000 (\$96,000 in 2009) to companies controlled by a director of the Company. During the financial year, the Company incurred management fees of \$120,000 (\$99,000 in 2009), rental of office of \$50,000 (\$0 in 2009) to a company controlled by the president, chief executive officer and director and consultation fees in geology of \$0 (\$12,000 in 2009) to a company controlled by a former director.

Also, during the year, professional fees of \$20,000 (\$11,000 in 2009) and shares issuing fees of \$20,000 (\$10,000 in 2009) have been incurred by the corporate secretary.

As at June 30, 2010 and 2009, accounts payable and accrued liabilities include \$6,047 (\$0 in 2009) payable to a related party. These accounts payable and accrued liabilities are subject to the same conditions of accounts payable and accrued liabilities with unrelated parties.

These transactions, entered into the normal course of operations, are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**10. LOSS PER SHARE**

Loss per share has been calculated using the weighted average number of 147,937,877 outstanding common shares during the year (107,884,021 shares in 2009). The dilutive loss per share, which is calculated using the treasury method, is equal to the basic net loss per share due to the anti-dilutive effect of the total share options and warrants outstanding indicated in note 7.

**11. ADDITIONAL INFORMATION ON CASH FLOWS**

Financing and investing non cash activities:

	2010	2009
Amount credited to the capital stock on exercise of options to purchase units	\$ 56,701	\$ -
Amount credited to the capital stock on exercise of share purchase warrants	\$ 25,411	\$ -
Share issue expenses in counterpart of shares	\$ 65,000	\$ -
Share issue expenses in counterpart of warrants	\$ 97,990	\$ 12,100
Share issue expenses as future income taxes	\$ -	\$ 147,000
Share issue expenses in counterpart of stock options	\$ -	\$ 19,432
Deferred exploration expenditures financed by accounts payable	\$ 57,916	\$ 113,592
Accounts payable settlement in counterpart of shares	\$ 50,000	\$ 78,000

**12. FINANCIAL INSTRUMENTS***Financial risk management objectives and policies*

The Company is exposed to various financial risks resulting from both its operations and its investment activities. The Company's management manages financial risks.

The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

**12. FINANCIAL INSTRUMENTS (CONTINUED)**

*Financial risks*

The Company's main financial risk exposure and its financial risk management policies are as follows :

*Interest rate risk*

Term deposits bear interest at a fixed rate and the Company is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations. A fluctuation of 10% of interest rates on the markets would involve a fluctuation of the results of the Company by approximately \$17,200.

*Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is subject to concentrations of credit risk through cash and cash equivalents, its term deposits and funds reserved for exploration. The Company reduces its credit risk by maintaining its cash and cash equivalents, term deposits and funds reserved for exploration in Canadian chartered banks and considers the risk of loss as low.

*Liquidity risk*

Liquidity risk management serves to maintain a sufficient amount of cash and cash equivalents and to ensure that the Company has financing sources such as private placements for a sufficient amount. The Company establishes budget and cash estimates to ensure it has the necessary funds to fulfill its obligations. Obtaining additional funds makes it possible for the Company to continue its operations, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

*Price risk*

The Company is exposed to a price risk because of its marketable securities. A fluctuation of 10% of the exchange value of these securities would involve a fluctuation of the results of the Company from approximately \$4,700.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**12. FINANCIAL INSTRUMENTS (CONTINUED)**

*Fair value of financial instruments*

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes inputs other than quoted prices in level 1 that are observable for the asset or liability, either directly or indirectly and level 3 includes inputs for the asset or liability that are not based on observable market data. Cash and cash equivalents, marketable securities and funds reserved for exploration are considered as level 1. Term deposits are classified as level 2.

The fair value of marketable securities is equivalent to the market value based on the closing price. The fair value of term deposits was determined using discounted future cash flows at the interest rate of 1.45% which is the market rate at the balance sheet date for similar investments.

The fair value of financial instruments is summarized as follows:

	<b>2010</b>	
	<u>Carrying value</u>	<u>Fair value</u>
	\$	\$
<b>Financial assets</b>		
<i>Held for trading</i>		
Cash and cash equivalents	613,514	613,514
Term deposits	2,514,339	2,514,339
Marketable securities	4,250	4,250
<b>Financial liabilities</b>		
<i>Other financial liabilities</i>		
Accounts payable and accrued liabilities	97,771	97,771

	<b>2009</b>	
	<u>Carrying value</u>	<u>Fair value</u>
	\$	\$
<b>Financial assets</b>		
<i>Held for trading</i>		
Cash and cash equivalents	56,926	56,926
Term deposits	5,071	5,071
Marketable securities	7,250	7,250
Funds reserved for exploration	113,149	113,149
<b>Financial liabilities</b>		
<i>Other financial liabilities</i>		
Accounts payable and accrued liabilities	155,912	155,912

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

**13. CAPITAL DISCLOSURE**

The Company's objective in managing capital is to safeguard its ability to continue its operations as well as its acquisition and exploration programs. The Company manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares and acquire or sell mining properties to improve its financial performance and flexibility

The Company's capital is shareholders' equity. To effectively manage the Company's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to endure the Company has appropriate liquidity to meet its operating and growth objectives. The Company is not subjected to any externally imposed capital requirements, unless the Company closes a flow-through private placement where the funds are restricted in use for exploration expenses. The Company has \$0 in funds reserved for exploration as at June 30, 2010 (\$113,149 in 2009).

As at June 30, 2010, the capital stock, the warrants and the contributed surplus totalize \$19,480,098 (\$15,098,032 in 2009). The Company has a cumulated deficit of \$6,262,820 (\$5,062,735 in 2009). Shareholders' equity totals \$13,217,278 as at June 30, 2010 (\$10,035,297 in 2009).

**14. GOLDBORO PROPERTY**

On November 11, 2009, Orex entered into an Option and Joint Venture Agreement whereby Osisko Mining Corporation ("Osisko") has a working right and an exclusive option to acquire up to a 60% undivided interest in Orex's Goldboro property and surrounding claims in Nova Scotia (collectively, the Property), by incurring exploration and development work expenditures and by making a private placement in the Company.

Upon signature of the Formal Agreement, Osisko completed a private placement in the capital stock of Orex of 13,000,000 Units at a price of \$0.10 per Unit, for gross proceeds of \$1,300,000. Each Unit consists of one common share and one transferable common share purchase warrant. Each transferable common share purchase warrant entitles its holder to acquire one common share for \$0.125 for a period of three years.

In order to acquire a 50% undivided interest in the Property on or before September 29, 2013, Osisko shall incur exploration and development expenditures for a total of \$8,000,000 according to the following timetable:

- In the amount of at least \$1,500,000 on or before September 29, 2010;
- In the aggregate amount of at least \$3,500,000 on or before September 29, 2011; and
- In the aggregate amount of at least \$8,000,000 on or before September 29, 2013.

Osisko may, at its sole discretion, accelerate and apply exploration and development expenditures to future years' expenditures and, accordingly, the Initial Option may be exercised sooner.

Osisko shall solely fund a prefeasibility study to earn an aggregate 60% interest (that is, an additional 10% interest) in the Property on or before September 29, 2015.